



King County

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CAFR

Comprehensive Annual Financial Report

For the Fiscal Year January 1 through December 31, 2010

King County
State of Washington

PREPARED BY:

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Comprehensive Annual Financial Report

December 31, 2010

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King County

Finance and Business Operations Division

Department of Executive Services
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July 20, 2011

Honorable County Executive, Members of the Metropolitan
King County Council, and King County Residents

We are pleased to transmit to you the Comprehensive Annual Financial Report (CAFR) of King County, Washington (the County), for the fiscal year ended December 31, 2010. The governmental financial reporting model provides a picture of the County as a single, unified entity, while continuing to provide traditional fund-based financial statements. Each perspective (government-wide and major fund) allows the reader to address relevant questions, provides a basis for comparison, and enhances the County's accountability.

The CAFR consists of management's representations concerning the finances of the County. Consequently, management assumes full responsibility for the completeness and reliability of all information presented in this report. To provide a reasonable basis for making these representations, management has established a comprehensive internal control framework designed to protect the government's assets from loss, theft, or misuse. Because the cost of internal controls should not outweigh their benefits, the County's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatements. As management, we assert that, to the best of our knowledge and belief, the CAFR is complete and reliable in all material respects.

The County's financial statements have been audited by the Washington State Auditor's Office. The auditor concluded that there was a reasonable basis for rendering an unqualified opinion that the County's financial statements are fairly presented in conformity with Generally Accepted Accounting Principles (GAAP). The auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the County was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. Once the audit has been completed, the County's 2010 Single Audit Report will be available online at <http://www.sao.wa.gov>.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it.

Profile of the County

The County ranks number one in population in the State of Washington and is the financial, economic, and industrial center of the Pacific Northwest Region. Located between the sparkling blue waters of Puget Sound and the snowcapped Cascade Mountains, the County consists of 2,131 square miles, ranking 11th in geographical size among Washington state's 39 counties. As of December 31, 2010, the County contained 39 incorporated cities, which accounted for approximately 82 percent of its population.

King County operates under a Home Rule Charter adopted by a vote of the citizens of King County in 1968 and is organized under the Executive-Council form of county government. The Metropolitan King County Council is the policy-determining legislative body of the County. The County Council's nine members are elected by district to four-year staggered terms and serve on a full-time basis. The County Council sets tax levies, makes appropriations, and adopts and approves the annual operating and capital budgets for the County. Other elected County officials include the County Executive, Prosecuting Attorney, Sheriff, Assessor, Director of Elections, and Superior and District Court Judges.

The County Executive serves as the chief executive officer of the County. The County Executive presents to the County Council annual statements of the County's financial and governmental affairs, the proposed budget, and capital improvement plans. The County Executive signs, or authorizes the signing of, all deeds, contracts, and other instruments on behalf of the County, and appoints the director of each executive department (subject to confirmation by the County Council).

King County provides some services on a countywide basis and other services only to unincorporated areas. Within appropriate jurisdictions, the County provides public transportation, road construction and maintenance, wastewater treatment, flood control, agricultural services, parks and recreation facilities, law enforcement, criminal detention, rehabilitative services, court services, tax assessments and collections, land use planning and permitting, zoning, public health care, emergency medical services, election services, animal control, and the disposal of solid waste. In addition, the County has contracts with some cities to provide services to incorporated areas within the County.

In 2010, the reporting entity "King County" includes six component units: (1) the Harborview Medical Center (HMC); (2) the Washington State Major League Baseball Stadium Public Facilities District (PFD); (3) the Cultural Development Authority of King County (CDA, dba 4Culture); (4) the Flood Control Zone Districts; (5) the King County Ferry District; and (6) the Building Development and Management Corporations. The Harborview Medical Center, with a history dating back to 1877, is a comprehensive 413-bed health care facility operated by the University of Washington under a management contract. The general conditions of the management contract specify that King County retains title to all real and personal property acquired with HMC capital or operating funds. The PFD is responsible for overseeing the maintenance and operation of Safeco Field, home to Major League Baseball's Seattle Mariners. The CDA was created in 2003 to support the arts, heritage, historic preservation, and public art throughout the county. The King County Flood Control Zone District accounts for the development, operation and maintenance of flood control or storm water control projects that benefit the county. The King County Ferry District provides water taxi services (sometimes called passenger ferries or foot ferries) to several destinations in the Puget Sound Region as a supplement to commuting options for residents. The Building Development and Management Corporations are four Washington state nonprofit corporations, each a single-purpose entity created to assist the County in the development and construction of public buildings.

Most funds in this report pertain to the entity King County Government. Certain Agency Funds pertain to the County's custodianship of assets belonging to independent governments and special districts. Under state statute and the County's Home Rule Charter, the King County Executive is the *ex officio* treasurer of all special purpose districts in King County, but not of cities and towns or the Port of Seattle. As provided by County ordinance, the Director of the Finance and Business Operations Division is responsible for the duties of the comptroller and treasurer. Money received on behalf of the special purpose districts is deposited in a central bank account. The Director of the Finance and Business Operations Division disburses money according to state and local regulations and invests cash balances based on standard agreements with the respective special purpose district's governing body or administrative officer.

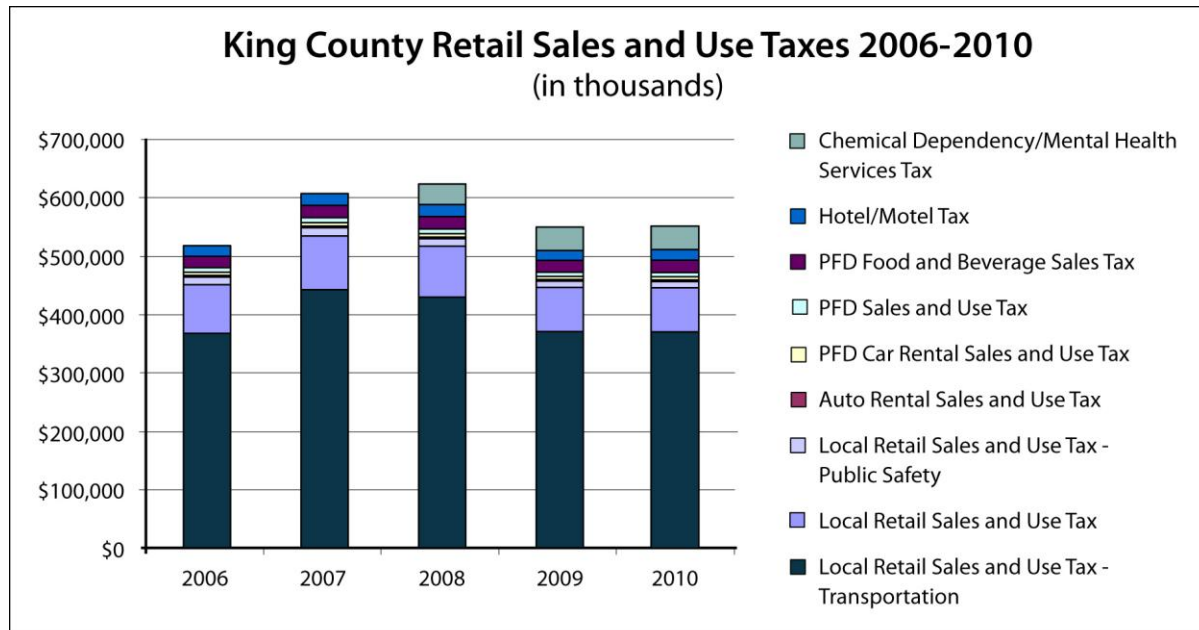
Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the County operates.

Local economy

Economic conditions have a direct impact on the County's revenues and the demand for county services. The County's revenue sources include taxes, charges for services, and intergovernmental revenues. The largest single

source is taxes, which comprise approximately one-third of total revenue. Property taxes tend to be stable since the passing of Initiative 747, which limits the growth of property tax revenues to 1 percent plus new construction. Other tax sources, such as the retail sales tax, are much more volatile and directly influenced by economic conditions in the region.



Effective April 1, 2007 the Local Retail Sales and Use Tax-Transportation increased 0.1 percent.

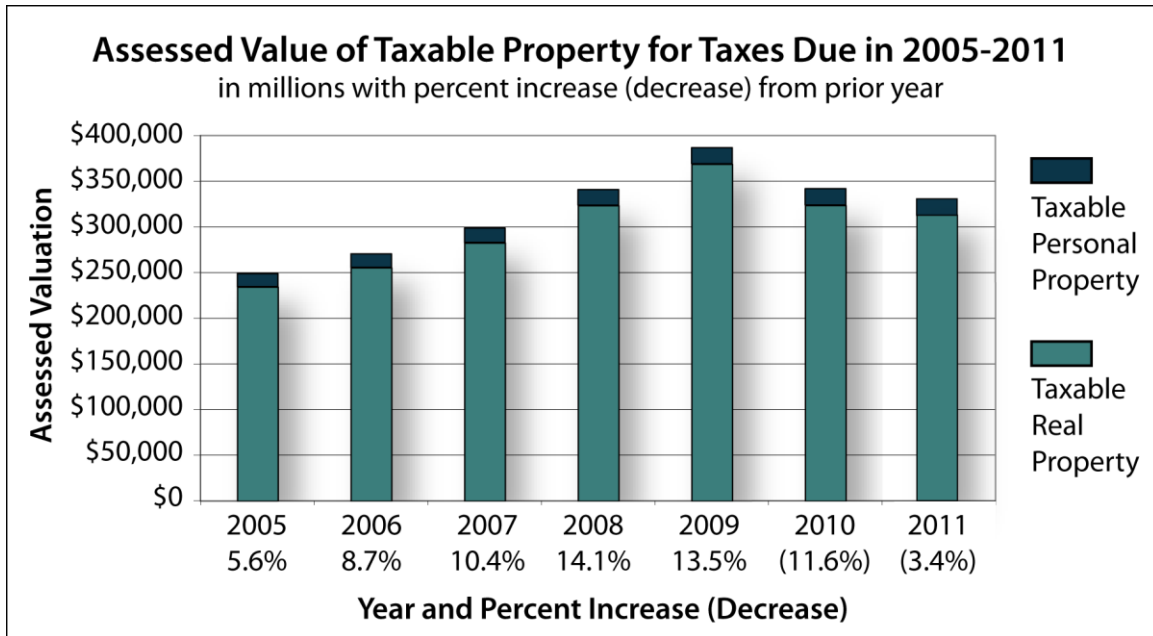
Effective April 1, 2008 the Chemical Dependency/Mental Health Services Tax-Transportation was levied at a rate of 0.1 percent.

The County's economy is experiencing recessionary weakness and a continued decline in real estate values. Total assessed valuation (TAV) fell by 11.6 percent for tax year 2010 and an additional 3.4 percent for tax year 2011. Despite the downward pressure, TAV per capita is relatively high at \$170,000. Taxpayer concentration is low, with the top 10 property tax payers accounting for only 3.5 percent of 2010 TAV.

The increasing diversification of the County's employment base has been an important buffer during the economic downturn, and some employment sectors began to grow again in 2010. Although the County unemployment rate continues to hover around 8 percent, slightly lower than the state and national unemployment rates, the County lost another 21,000 jobs in 2010, bringing the total lost since 2008 to more than 85,000 jobs.

County taxable retail sales were particularly affected by declining incomes and consumer apprehension. Undesignated General Fund collections declined in 2008 by 5.1 percent from 2007 levels, the first drop since 2003, then fell a further 13.3 and 0.2 percent in 2009 and 2010, respectively. Strong retail sales in the fourth quarter of 2010 signaled a halt to the decline in tax collections and perhaps foreshadowed a modest increase for 2011.

The County's investment pool net rate of return for 2010 was 0.96 percent, down from over 5 percent only three years before, which is reflective of the overall economic downturn that has had a devastating effect on the local, national and global economies.



Inflation continued to be low in 2010. The Seattle Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W-Sea) increased by only 0.63 percent for the year ending in July 2010. The national CPI for All Urban Consumers (CPI-U-US) increased by 1.65 percent, while the Producers Price Index for Pharmaceuticals fell by 2.14 percent in 2010.

Economic outlook

A broad-based economic recovery appears to finally be underway. Retail sales surged in the fourth quarter of 2010, the stock market has nearly returned to pre-recession highs, personal income is growing steadily, and corporate profits are on the rise. Manufacturing is also recovering at a rapid pace. The Blue Chip 2010 consensus forecast is for a robust 3.2 percent growth in real GDP.

Inflation currently does not behave in a consistent manner when goods and services are compared. Although the price of services is well-controlled, the cost of goods is volatile, driven by turmoil in the Middle East and several crop failures globally. Core inflation, which excludes energy and food, is best for capturing underlying trends and is well within the Federal Reserve's target range.

Unemployment remains at high levels, both nationally and regionally. The private sector has begun hiring again in earnest, but the public sector will be offsetting some of those gains through job elimination. The net effect will be a steady, but slow, decline in the unemployment rate.

The negative impacts from the real estate recession will continue to exert downward pressure on assessed valuations and new construction. Local foreclosures have still not peaked, and as many as one in three homeowners has a mortgage that exceeds the home's market value. Office vacancies remain at historically high levels. These factors will be reflected in continued low consumer spending, mobility, and new construction for at least the next two years.

It will take several years of sustained growth to make up the lost ground in employment, personal income, and taxable consumer spending. King County will continue to face numerous challenges, including volatile energy prices, rising employee and health care costs, and the need to raise sufficient revenues to support utility, transit system, and general government operations.

Long-term financial planning

Between 1999 and 2007, King County forecast that status quo expenditure patterns would outpace revenues and began to address the coming deficits through a scaling back of programs, limiting new programs, and creating reserves to cushion future deficits. The County continues to forecast deficits, intensified by weak national conditions, and is managing to address predicted shortfalls. The County reaffirms its steadfast commitment to maintain a 6 percent undesignated reserve policy and also its willingness to make painful decisions in order to reduce expenditures to match revenue levels while retaining prudent reserves. At the state level, the County also continues to pursue statutory enhancements to local government revenues to more flexibly balance revenues with long-term cost pressures.

Major 2010 Initiatives

Financial Stewardship

King County Executive Dow Constantine outlined the overall approach to long-term financial stewardship in the context of the 2011 Budget in his “100 Day” speech on March 8, 2010, calling for the alignment of approaches and strategies with the adopted King County Strategic Plan.

Key strategies are outlined below:

Focusing on Long-Term Sustainability and Not One-Time Solutions – The challenges facing the County’s budget are long-term. As the economic recovery is expected to be slow, revenue growth will also be slow, and finding short-term savings only serves to postpone budget and problems. The 2011 budget process reflected this awareness, and most reductions that were made were ongoing in nature. The Executive is also implementing more conservative financial practices, such as shorter terms for debt to reduce long-term interest costs.

Using the King County Strategic Plan to Help Support Decisions – In 2010, the County adopted its first Strategic Plan as a key tool in the Executive’s work to reform county government by focusing on customer service, partnerships, and ways to bring down cost of government. For the 2011 budget, each County agency has been asked to develop its budget and business plan in the context of the Strategic Plan and to explain how its programs support the Plan’s goals. In future years, the strategic plan will play an increasing role in aligning decisions and objectives with the goals outlined.

Committing to Finding Efficiencies in Each Annual Budget – Due to the nature of the County’s long-term cost drivers, County costs typically are increasing approximately 3 percent faster than the rate of general inflation. To avoid reductions in services, 3 percent improvements in productivity must be made each year. The King County Office of the Executive is coordinating this effort as the “Be the Difference” program, which provides a renewed emphasis on measuring and improving government performance.

Working Across Organizational Boundaries – The County delivers services through a mix of Executive departments and agencies run by separately elected officials. In addition, the two court systems, Superior Court and District Court, comprise a separate branch of government. The Executive is committed to working across these organizational boundaries. To accomplish this, for the 2011 budget process the Executive formed a “General Fund Cabinet” with the separately elected officials to share ideas and improve communications. This created opportunities for budget efficiencies through better coordination and by thinking in terms of interactive systems rather than isolated programs.

Working with Labor Partners – Most of the County’s employees are represented by labor unions. In 2011, the Executive asked unions and employees to partner in the effort to balance the County’s budget and to improve services. County employees are the best source of ideas for increasing productivity, and programs are underway to train people in these skills at all levels of the organization. The Executive also asked unions to forego their cost-of-living adjustments (COLAs) for 2011 to help preserve services and save jobs. In 2011, over 90 percent of county employees agreed to forego COLAs for 2011, saving the County over \$23 million and allowing the County to maintain direct services and preserve county jobs.

Giving Voters a Choice – Working to increase efficiencies will not be enough to create a balanced budget in the long-term. General Fund revenues typically will not keep up with inflation and population growth because property taxes are the County's largest revenue source, and Initiative 747, passed in 2001, limits annual property tax revenue growth to 1 percent plus the value of new construction. The Executive has proposed reducing cost growth to inflation plus population growth, and then asking voters to choose whether to fund this proposal, to fund a higher level of service, or ask the County to reduce the level of service to live within the existing revenue.


Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to King County for its comprehensive annual financial report for the fiscal year ended December 31, 2009. This was the 29th consecutive year that the County has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

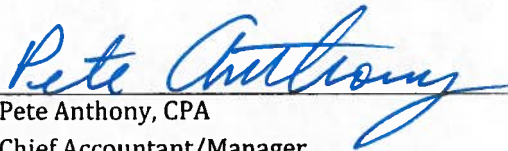
A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report would not have been possible without the efficient and dedicated services of the Financial Accounting staff of the Finance and Business Operations Division. We would like to express our appreciation to all members of the division who assisted and contributed to the preparation of this report. Credit must also be given to the Executive and County Council for their support for maintaining the highest standards of professionalism in the management of the County's finances.

Respectfully submitted,



Ken Guy
Finance Director
Finance and Business Operations Division



Pete Anthony, CPA
Chief Accountant/Manager
Finance and Business Operations Division

ELECTED OFFICIALS
 at time of publication

Office		Official
Councilmember	District 1	Bob Ferguson
Council Chair	District 2	Larry Gossett
Councilmember	District 3	Kathy Lambert
Councilmember	District 4	Larry Phillips
Councilmember	District 5	Julia Patterson
Council Vice-Chair	District 6	Jane Hague
Councilmember	District 7	Pete von Reichbauer
Councilmember	District 8	Joe McDermott
Councilmember	District 9	Reagan Dunn
Executive		Dow Constantine
Prosecuting Attorney		Dan Satterberg
Assessor		Lloyd Hara
Elections		Sherril Huff
Sheriff		Sue Rahr
Judicial	Presiding Judge King County Superior Court	Richard McDermott
	Chief Presiding Judge King County District Court	Barbara Linde



**King County Executive
Dow Constantine**



Metropolitan King County Council

**BACK ROW: Kathy Lambert, (District 3), Bob Ferguson, (District 1),
Joe McDermott, (District 8), Reagan Dunn, (District 9),**

**FRONT ROW: Larry Phillips, (District 4), Julia Patterson, (District 5), Chair Larry Gossett, (District 2),
Vice Chair Jane Hague, (District 6), Pete von Reichbauer, (District 7)**



**King County
Assessor
Lloyd Hara**



**King County
Elections
Director
Sherril Huff**



**King County
Prosecuting
Attorney
Daniel T. Satterberg**



**King County
Sheriff
Sue Rahr**

Certificate of Achievement for Excellence in Financial Reporting

Presented to

King County
Washington

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2009

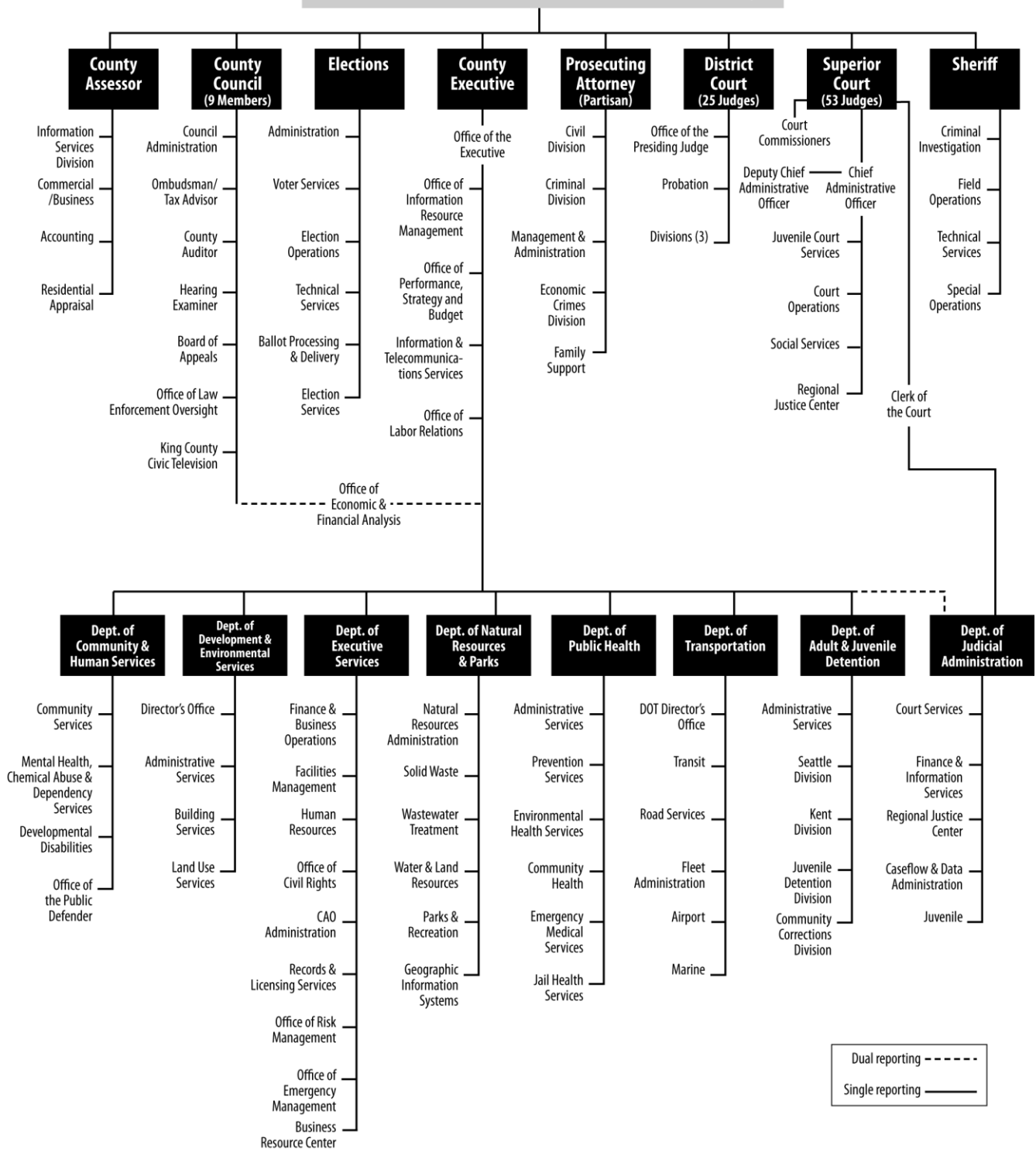
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

The Electorate of King County



2011 King County Organization

Elected Officials, Departments and Divisions

